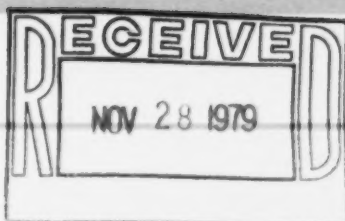




Economic Research
& Planning Division



Financial Markets

Friday

November 23, 1979

Conditions abroad--the deteriorating political confrontation between the U.S. and Iran and the attack on the American Embassy in Pakistan--contributed to growing investor uncertainty this week. Mounting uneasiness pushed the dollar lower and spilled over into the domestic bond markets as well. At home, market participants looking for evidence of economic softness as a forerunner of slower inflation and declining interest rates continued to get mixed signals.

GNP statistics for the third quarter showed that consumer spending and capital investment--particularly in equipment--provided more of a boost to the economy than originally reported. As a result, real GNP was up at a 3.5% annual rate, compared to the prior 2.4% estimate. Of greater significance, perhaps, was the surprisingly strong 6.5% gain in real final sales and its implications for inventory accumulation. The reported drop in October durable goods orders does indicate that firms are now seeking to trim their inventories. But the strong sales figures suggest that much of the third-quarter slowdown in inventory accumulation may have been unintentional, and that the process of planned stock liquidation is still in its early stages.

The sharp rise in mortgage rates that has occurred since the October 6 Federal Reserve actions and the rapid erosion in thrift deposits--savings bank deposits were down a record \$1.4 billion in October--all point to a substantial weakening in residential construction over the months ahead. But so far, the widely expected weakening in housing has yet to develop. Though housing starts were off 8.0% in October, the 1.76 million annual start rate was still in the 1.7-1.9 million range that has held up since the spring.

And so, as has been the case throughout the year, the economic data still fail to provide unambiguous evidence of a recessionary slide. The Federal Open Market Committee undoubtedly took note of that fact at Tuesday's meeting. It is reasonable to assume that the FOMC's October 6 policy actions will soon begin to dampen activity, particularly in construction. But despite the intensifying political opposition to current rate levels, and despite apparent slowing in money and credit growth, the FOMC likely decided to maintain a stable posture on monetary policy. Details are still lacking on just how policy is being formulated in the post-October 6 environment. But until there is convincing evidence that money and credit growth is shifting into low gear and that the economy is declining--evidence we don't expect until early next year--the FOMC is unlikely to seek lower rates.

In the credit markets, trading activity was generally light for the third holiday-shortened week in a row. Bond prices tended lower early in the week in response to the GNP news and Iranian developments. Prices then pushed back up on Wednesday, when the Fed refrained from withdrawing reserves until the Federal funds rate drifted down to 12%, a full percent below previous intervention points. There was more of the same on Friday, and market participants took the opportunity to push prices sharply higher as the week came to a close. Before the market rebounded, however, yields had been flirting with their highs for the year. In the corporate sector, for example, the week's major offering, a Public Service Electric and Gas issue of AA-rated bonds, set a record for the year when it was priced to yield 12%.

Glenn C. Picou

Money Market Rates

**Irving Trust
Company**

**A Charter
New York Bank**



	11/23/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating.	15.75%	15.75%	11.50%
Effective since	11/16/79		
Discount Rate at Federal Reserve Bank.	12.00	12.00	9.50
Federal Funds	12.38	13.38	9.75
Repurchase Agreements	12.00	12.50	9.45
U.S. Treasury Issues - Yields			
Bills			
3 months	11.85	12.30	9.10
6 months	12.40	12.90	9.79
1 year.	12.10	12.35	10.05
Coupons			
2 years	11.82	11.80	9.48
4 years	11.05	11.12	8.92
7 years	10.65	10.90	8.80
10 years	10.53	10.75	8.79
Long Bond.	10.24	10.40	8.76
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.90	10.00
3 months	13.55	14.10	10.60
6 months	13.55	14.15	11.05
1 year.	13.25	13.60	11.00
Bankers' Acceptances			
1 month	13.30	13.90	10.08
3 months	13.60	14.20	10.62
6 months	13.70	14.25	11.14
Eurodollar Deposits			
1 month	13.63	14.50	10.19
2 months	14.63	15.38	11.25
3 months	14.63	15.38	11.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	10.00	6.00
1 month.	13.00	13.50	9.75
3 months	12.63	12.75	9.90
Bank Holding Companies			
1 month.	13.13	13.30	9.80
Dealer Placed:			
3 months	13.38	13.63	10.15
New Aa Corporate Utility Bond	11.75	11.75	9.35
Tax Exempt			
6 month Project Notes.	6.40	6.40	5.20
12 month Project Notes.	6.50	6.60	5.30
20 year AAA Bond	7.00	6.80	5.50

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

Cable Address: "Irvingbank" Telex: I.T.T. 420268 · R.C.A. 232241 · W.U.I. 62832 · French 82629